



**An Roinn Airgeadais
Department of Finance**

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
Ireland.

Teileafón / Telephone: 353-1 676 7571
Facsimhír / Facsimile: 353-1 678 9936
Glao Áitiúil / LoCall: 1890 66 10 10
<http://www.finance.gov.ie>

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Mr. Tom Lyons
Deputy Business Editor
The Sunday Independent
27-32 Talbot Street
Dublin 1

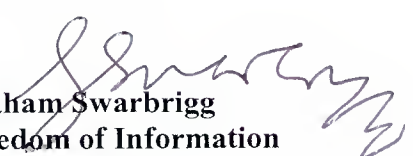
Re: FOI request for access to records relating to the Wright report

Dear Mr. Lyons,

I refer to your freedom of information request dated 12 March 2011 for records of meetings that members of the Wright Panel had in the course of formulating their recommendations.

In accordance with the decision of the Information Commissioner dated 27 August 2012 I am forwarding you copies of records numbered 13, 14, 15, 17, 18 and 19.

Yours sincerely


Graham Swarbrigg
Freedom of Information
Liaison Officer



Review of the Department: Meetings on Wednesday, 15 September 2010

Overview of Department's relationship with the EU

A Presentation (copy attached) was made by Mr J O'Brien and Mr M Mc Grath.

Main points were as follows:

- Fiscal Frameworks for validation of policy prescriptions are being considered at EU level
- Important to define best practice and to assess a range of possibilities. A constructive approach is needed in order to put in place appropriate mechanisms to facilitate corrective/preventive measures.

Meeting with Mr Con Hough, Secretary General, Department of Tourism, Culture and Sport

Present: Mr Wright, Mr Malone,

Main points were as follows

- As Secretary General for a relatively small Department main contact with the Department involves management of the Vote.
- Secretary General is responsible for the management of resources allocated. Department controls and adopts a "one size fits all" expenditure management. This needs to change.
- An integrated approach to Vote management and better understanding of the relevant sector is a key requirement.

Meeting with Mr. John Hurley: 15 September 2010

Present: Mr. Wright, Mr Borstlap, Mr. Malone and Mr. McArdle

The Key issues were as follows

- Implications of Government Programmes /Partnership/ Agreements were significant – little the Department could do. Issue was to fit budgetary arithmetic to the commitments already made.
- Government Programmes /Social Partnership Agreements were key drivers of fiscal policy – measures were at the edge of prudence. Important to check records.

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- Social Partnership was very successful in the earlier years. In later years increased pressure for consensus was difficult to withstand given surging revenue yields. Flexibility was severely damaged and tensions developed. Fiscal discipline and the prism of competitiveness were lost. The Stability and Growth pact failed. There is clear need for new intervention mechanisms. Fiscal Rules are needed to act as a restraint.
- During 2000-2002 tough discussions took place on fiscal sustainability. Important to check records leading to budgetary decisions. Implications were set out clearly in pre- budget documentation.
- Long- Term issues Group Reports set out implications and scenarios for the future.
- During this period acutely aware of need for up skilling in economic analysis and econometrics and an economist from the Central Bank was seconded to the Department.
- On transfer to Central Bank a key objective was to ensure that expert economic advice was available in- house. Central Bank has a staff of some fifty economists.
- Central Bank has scope to employ the necessary expertise and is not constrained by Civil Service rules.
- Urgent requirement for “joined up” thinking between the Central Bank, Regulator, NTMA to ensure that “a whole economy overview “informs policy formulation.
- Important to note that the Government Guarantee in September 2008 pre-dated the EU response to the crisis. At that time no Pan- European response mechanism had been put on the table. Important to judge what happened in the context of the time. All agendas were open and the response could only be described as heroic.
- Capacity of the Department to address sectoral issues must be significantly increased. All relevant “big ticket” items must be fed into the process and the Department must be in a position to give the best possible advice to Minister and Government.
- Department of Finance must take a lead role in developing the strategy for economic recovery.

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- Strong case for ensuring that appropriate mechanisms are put in place to facilitate the implementation of corrective/ preventative measures. Fiscal Framework may be an appropriate model

Meeting with Mr Michael Howard, Secretary General, Department of Defence.

Present: Mr Wright and Mr Malone

- Lack of sectoral expertise is an issue
- Control function is dominant –lack of a “bigger picture” approach
- A structured working relationship with line Departments is needed
- Public Service Modernisation agenda lacks clarity and focus
- Professional skills in accountancy, economics and law are urgently needed.

Meeting with Mr Michael Scanlan, Secretary General, Department of Health and Children

Present: (Mr Wright and Mr Malone)

Main points were as follows

- Urgent need for sector specific expertise across the system, very poor metrics, focus is on inputs not on outputs/outcomes and quality of service.
- Civil Service governing legislation is outdated
- Integrated approach to managing expenditure to achieve better value for money is essential. Control is all pervasive.
- Current system is risk adverse. Significant change is needed and should be hardwired into the system
- Analysis and research capability across sectors is poor and needs to be upgraded urgently
- “Whole of Government” approach to public administration is essential.

Meeting with Mr Brian Lenihan, Minister for Finance

Panel members and Mr Mc Ardle met with the Minister. Officials were not present.

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Meeting with Dr Michael Somers, former CEO, NTMA

(All Panel members were present)

Key issues were as follows

- Civil Service structure, systems and processes are restrictive and hamper a professional and dynamic approach to management
- Culture of generalist is outdated. Department needs a cadre of highly trained professional staff across a range of disciplines
- NTMA with a complement of 168 professional staff managed a wide range of functions. NTMA has the scope to put in place competent professional staff with the appropriate skill sets. Quality not quantity is the key requirement.

15 September 2010

Tuesday, 12th October

Session I: Roundtable discussion with Assistance Secretaries

Attended by: Michael Errity, Brendan Duffy, Patricia Coleman, Robert Watt, David Moloney, William Beausang, Carmel Keane, Derek Moran (for part)

The main points were as follows:

Process dominates rather than following a strategic agenda. A lot of time is spent fire-fighting.

- **ASG:** There was some debate about the role of the Assistant Secretary Group (ASG), which was abolished earlier this year. The view was expressed that the ending of the ASG means that the Assistant Secretaries as a group are not as effective in scanning issues for MAC. Others noted that the ASG had become debased over time and that its functions became trivialised, dealing in the main with staffing and corporate service type issues.
- **MAC:** With regard to the MAC, it was also noted that, prior to the disbandment of the ASG, the Group had sent a note to MAC recommending regular meetings of the full MAC. In some other Departments (D/Health was mentioned) papers are circulated for discussion at MAC – this does not happen in D/Finance. There is no formal debrief of A/Secs not on the rota to attend MAC.
- **Budget process:** It was noted by some that the process in place for producing the annual Budget is good – the Budget Coordination Group of A/Secs have discussions on policy and measures, which then go to MAC. Other A/Secs, not as closely aligned with the process are not necessarily aware of the issues being considered unless they relate directly to their area. With regard to the matter of the rituality of the Budget process, it was remarked that the issue was one of leadership – how hard were Department views pushed? It was commented by others that the Department was not listened to and became sidelined.
- **Skills in Department:** Views were expressed that there is a shortage of macro-economic, accountancy, econometric and analytical skills in the Department and that there is little focus on developing the skills that the Department has. It was proposed that: the Department should continue to recruit people with appropriate skills and at different levels; there should be a competition for each vacancy rather than the setting up of panels; the number of promotions that go to external people should be increased and staff should be encouraged to gain experience in other bodies such as the Central Bank and NTMA. It was noted by others that since 2000, when skills needs of the Department were examined, the focus has been on hiring economists and that management has a role in the development of their staff. There are a number seconded to external bodies such as the EU Commission, who will return to the Department, which is valuable to the Department. There was some discussion on the use of specialists in the Department, with questions being raised as to how economists would be integrated across the Department. In response to a question from the Panel, it was noted that, while the Department is capable of supporting the Minister is leading

the economic recovery process, it is not fully “tooled up”. A team based structure is required as is support from other Departments such as D/Enterprise, Trade and Innovation.

- **Staff management:** It was noted that underperformance is an issue. It was also noted that, while achievement of tasks is important in the Department of Finance (and others), the same value is not attached to how these tasks are completed. A change in culture is needed to deal with underperformance. It was confirmed that the probation period is used effectively. It was also stated in the context of staff issues that the poor communication is an issue – the comment was made that staff should not hear about D/Finance related matters via the media. Someone should be responsible for manpower planning in the Department, monitoring the performance and under-performance of staff and dealing with succession planning.
- **Structure of Department:** Some noted that there is a culture in the Department of “delegating” work upwards. This is partly due to the structure of the Department, which has a lot of staff at AP level and relatively few support staff. The management structure is too top heavy, with an extra decision-making layer. There was some discussion about the Divisional structure, most particularly SPD and PSMD, which have significant areas of common interest (pay and pensions – pay policy within remit of PSMD). Various opinions were expressed on how to deal with the disconnection between these areas. More broadly, it was suggested that there should be a fundamental reassessment of the alignment of Department functions. It was also suggested that service provision areas could be brought together and that there is scope for greater use of technology in certain areas.

Session II: Meeting with Deputy Joan Burton, T.D.

(Ms Burton was accompanied by her Parliamentary Assistant and the Legal Advisor to the Labour Party)

The following were the key points

- Impressions from 1992-1997 were that Department of Finance had strong role at centre of Government. That pivotal role appears to have shifted since then towards the Department of the Taoiseach. This raises the question of who is in charge. What is the key role of the Department? Partnership structures may have contributed to this.
- Information side of managing the Budget: it is now clear that nominal budget figures marked an underlying deterioration in the fiscal situation. Data and economic modelling is poor as is shown by failure to capture the impact of the property bubble on tax revenue. Macro-economic forecasting needs to be strengthened and made contestable.
- Scope for Parliamentary involvement in the budgetary debate is severely limited – there is no coherent fiscal framework (reference to the Deputy's speech at the Humbert Summer School). Changes to the Budgetary process over recent years have not been helpful, really "false reform". Output Statements are confusing and lack relevance. There is scope for significant real reform in this area.
- On the issue of a Fiscal Council would agree that its role should be independent, competent and validating.
- Deputy Burton noted the following as examples of key issues which had significant implications and where the Department should have had and did not have a significant role.
 - Decentralisation
 - Introduction of medical cards for over 70s – costs were grossly underestimated
 - Property related tax exemptions not properly costed and tax expenditures generally are not transparent and costed after the event.
- On Banking, Deputy Burton said that in her experience briefing was poor. She believed that the Department was relying on outside expertise which it was not in a position to assess adequately. In her opinion, there was a serious lack of understanding of the business/banking environment.
- Noted by the Legal Advisor that the Department has functions in promotion and coordination of economic and social planning (including sectoral and regional planning) and there was little sign of a proactive approach in this respect.
- Overall, Deputy Burton noted that there appears to be a lack of appropriate skills in accountancy, economic analysis and analytical skills generally.

However, she acknowledged the integrity and commitment of staff in the Department.

Session III: Meeting with Deputy Michael Noonan, T.D.

The following were the key points

- In most years over the past decade fiscal policies were pro-cyclical and added to the overheating of the economy.
- The impact of the property bubble was not identified. Advice of Opposition and others was ignored. In his view the Department was "tied into their Minister". Deputy Noonan referred to correspondence in 2002 addressed to the Secretary General. He noted that the reply issued from the Minister. There is no evidence that the views expressed by Opposition Deputies are heeded or taken into account. Deputy Noonan referred to his intervention on the Committee Stage of the Finance (No2) Bill, 2007 on June 2007 on the impact on tax revenue of the drop in house prices (copy attached). He noted that no effective action was taken for a further eighteen months.
- As a former Chairman of the Public Accounts Committee he said that in his opinion the reply to the Committee's Reports in the Minute of the Minister for Finance was weak and effective action was not taken.
- On a positive note, he said that in some areas service was generally better.
- Current arrangements for costing proposals from political parties are not satisfactory and lack coherence.
- The Department has no Economic Model and relies on the ESRI model which requires significant updating.

Session IV: Meeting with Brigid McManus, Secretary General, Department of Finance

Ms. McManus provided views based on experience as Assistant Secretary in the Department of Finance and as Secretary General of the Department of Education and Science.

The main points were as follows:

- Formal submissions were provided to the Minister of the day on all tax measures for the Budget and the Finance Bill. These included options, not necessarily recommendations; however the leanings of the Department would be been apparent in these submissions.
- Any overall views of the economy and on overheating would have been submitted by the economic side. With regard to housing, briefing would have been prepared on housing and the impact of a decrease in output on employment and tax receipts. There was also interaction, and briefing, from the Department of the Environment among others, on housing issues. The view of the Department, as Ms McManus recalled, was that housing was a supply-side issue. The Department was against mortgage interest relief in general, but not as strongly against such a relief for first time buyers. There was some external criticism of the abolition of reliefs as rents were high at the time. It was difficult to get data on property tax reliefs as such data was not collected by Revenue. There was considerable discussion at Cabinet regarding the second Bacon Report.
- With regard to the Department's dealings with the Department of Education, Ms McManus noted that:
 - Different messages/advice can be provided depending on the area. The Department should hammer out its view/position before engaging with Departments.
 - In the current crisis finding a strategic way of engaging Departments and a greater understanding of sectoral issues would be very useful. It shouldn't be an issue if line Departments and the D/Finance have different views on how to achieve the same end – this is counterproductive and demoralising for staff in line Departments. The D/Finance should be focussing on strategically thinking about what can be achieved rather than fighting with line Departments on every issue. A huge amount of time is spent trying to resolve relatively trivial issues – this is not conducive to a collegiate atmosphere.
 - There is a need for one source of IR expertise and understanding.

Session V: Meeting with Dr. Don Thornhill, Chairman NCC

The main points noted were as follows:

- The culture of the Department of Finance is that only the Department can understand all issues. There is a sense of defensiveness in the Department and a lack of confidence at times, reflected in the fact that the Department is reluctant to engage in debate at times. There is a reluctance to sit at the planning table with other Departments and to take hard lines in initial discussions with Departments.
- It is not fair to criticise the Department regarding the quality of economic forecasting in recent times as no-one knew the extent of what would happen.
- There was reluctance at political level to hear anything unpalatable as well as a huge commitment to partnership. What was missing was the administrative structure required to enable officials to deliver unpopular advice.
- With regard to competitiveness, the Government had a distribution policy, i.e. share the wealth. The NCC pointed out the transient nature of stamp duty and argued for a property tax; however, there was no traction politically.
- A number of officials from Government Departments attend NCC meetings including D/Finance. Attendance at meeting varies. The NCC meets the Minister for Finance once a year.
- There appears to be a deficit in technical expertise (economic/econometric) in the Department.
- Dr. Thornhill strongly supported the concept of the Fiscal Council.
- Systemic issues and challenges: Out of date recruitment – there is a need for open recruitment at all levels.
- TLAC: there is a strong cultural bias in the form of XXXX civil servants. The process is not “fit for purpose”.
- The culture of the generalist rather than the specialist is pervasive. This must be addressed to meet the needs of a modern Finance Ministry.

Wednesday, 13th October

Session I: Meeting with Colm Kelly, Senior Legal and Tax Partner, PWC

The main points made were as follows:

- Mr. Kelly outlined his contacts with the Department. Interaction generally relates to tax policy issues, mainly with regard to the international business environment. His view was that the Department has a good perspective in this regard and that dialogue with Department officials has been constructive. The Department did not lose sight of sustainability in the business tax framework. In his view there is a disconnect between the public perception of the Department of Finance and his experience in dealing with the Department.— his view is that officials are professional, capable, committed and have a strong public sector ethos. This perception gap needs to be closed but Mr. Kelly was unsure as to how this could be done.
- In 2005-2006 there would have been general awareness in the industry of an imbalance in the tax system and concerns about the lack of competitiveness. Would have known that growth could not continue at previous rates, but no-one credible could have foreseen the extent of what was coming.
- With regard to competitiveness, the way in which the global economy moved meant that being a small peripheral island didn't matter. Ireland did a huge amount of catching up in the mid-late 1990's. Ireland started of competing on the basis of cost and tax. Development from manufacturing to high end production masked the loss of competitiveness. He pointed out that you have to know what you are going to compete at in order to put an appropriate framework in place.
- Growth rates were used as the benchmark for success. This overlooked what economic policy was attempting to achieve. There is a natural inclination to focus on statistics rather than policy objectives. Perhaps the wrong things were being measured.
- Social partnership was a political convenience – there was no overall view of what we were hoping to achieve. However, partnership may be needed now more than ever to formulate a collective view of where we want to be in the next 5-10 years.
- The budget timeframe is very short. There is a vacuum of debate and a lack of understanding of where we want to go. At the moment there is a huge amount of negative public comment, with each commentator speaking from their own perspective. After a pick-up in confidence after the last Budget, the country is now paralysed again due to bond market developments. Great dialogue and planning would ease this. EU developments also have the potential to be helpful.

Session II: Meeting with David O'Callaghan, Chairman, Department Capacity Review

The main points were as follows:

- Mr. O'Callaghan gave an overview of the data gathering exercise used for the Capacity Review.
- He noted that an amended version of the Report was published. A considerable amount of cooperation and high quality, high level opinion and facts fed into the Report, but this was possibly not fully reflected in the published Report.
- The Review found the Department to be an organisation of many parts, with a large number of silos. External people gave positive views of the "treasury" element of D/Finance. However, it was the view of Secretaries General of other Departments that measures that might be sanctioned by one side of the Department (e.g. SPD) could require a round of further talks with another side of the Department (e.g. PSMD).
- Views of the Department included the following:
 - Department good at "full back" role, but no flair in evidence;
 - Not good at strategy;
 - Cautious, no sense of creativity or new ideas;
 - Sense of disengagement with regard to big issues, e.g. ageing population;
 - Expenditure Reviews of no benefit;
 - More productivity needed;
 - Department needs to take the lead on TPS agenda;
 - Department has no understanding of sectoral issues. Should be part of implementation teams;
 - Senior public servants don't have the same respect that they used to;
 - Department had lost control of what was happening with the EU and Ecofin – capacity issue;
 - Too much compartmentalisation in the Department;
 - Department should be more open.
- The Capacity Review recommended that the number of Secretaries General should be cut from 5 to 2 and that 2 or 3 Assistant Secretary posts should be cut. MAC was seen as somewhat dysfunctional.
- There was confidence in the Department that they could handle whatever came along.
- There was a view that the Public Sector and "Finance" sides of the Department could cooperate better but no suggestion that they should be amalgamated.
- With regard to skills sets in the Department, Mr. O'Callaghan noted that many have degrees in economics, but there are fewer financial management and accountancy qualifications. Performance management was not being tackled by the Department and some people were not assigned to the right area. The quality of staff could not be differentiated by grade but generally at Assistant Secretary

level people were highly motivated and capable. He could not see signs of slippage in staff quality in the past 10 years.

Session III: Meeting with Frank Daly, Chairman of NAMA

The main points raised were as follows:

- Mr. Daly pointed out that he had a number of phases of engagement with the Department; as Revenue Commissioner and Chairman, as Chairman of the Commission for Taxation, as Public Interest Member on the Board of Anglo and in this current position as Chairman of NAMA.
- Main engagement with the Department was when in Revenue. Engagement with the Department centred around the Budget process and Finance Bill. The Budget process was very formulaic and consisted primarily of an exchange of letters between the Department and Revenue – meetings would have been a more useful format.
- He was of the view that Revenue forecasts were more positive in outlook during the boom years due to the proximity of the organisation to areas of activity – he felt that this was an underused Revenue resource.
- Contacts during the preparation of the Finance Bill were structured and very good.
- With regard to the change in the tax base over the past number of years, Mr. Daly commented that a structured look at the tax base every 8-10 years may have created more awareness of the erosion of the base. There was public expectation during the boom years that things would remain good and that taxes could be cut. Some measures to strengthen the tax base were suggested by the Commission on Taxation, but the group was constrained by the fact that measures had to be revenue neutral and the fact that the Commission was very large – 19 people, including social partners – which meant that consensus was difficult to attain.
- In the earlier years very few tax reliefs were costed – for many reliefs no data was collected as Revenue wanted to keep the system simple. Data is now being collated on tax expenditures.
- Suggested that tax dates could be changed so that there is not so much reliance on October and November receipts. This would facilitate earlier publication of the Budget. However, there would be resistance from professionals on this.
- Suggestions for the Department looking forward:
 - Department should engage more widely. There should be greater mobility of staff.
 - An expert group should be established to examine on a periodic basis the structure of the tax system (i.e. Commission on Taxation model).
 - FSD has very talented and motivated people, but they are possibly struggling to deal with the realities – something needs to be done here.
 - Because of the crisis, there has not been an opportunity to step back to determine the roles of the Department and the NTMA. Concern was expressed at the Department's role being lessened, given the experience of the last few years.

- If a Fiscal Council is established, it should not be fully populated by academic economists. The Council should be expert, independent and validating.
- With regard to the Department's response to the crisis, there was quite late engagement. The Department relied on the Financial Regulator and the Central Bank and was let down by them. Given the tools at the Department's disposal, they responded fairly well. They didn't have the information to determine that there was a liquidity and a solvency problem; whether the banks knew this is moot.

Session IV: Meeting with Eddie Molloy, Advance Organisation and contributor to Irish Times

The main points raised were as follows;

- C&AG Reports – the C&AG seems powerless to follow up on his Reports and his work is done after the event. The PAC is very politicised. There is a lack of accountability.
- Following the Mullarkey Report 2003, a provision now exists whereby an official can put his views in writing if s/he disagrees with a Minister on an issue and this can be copied to the C&AG. How often has this provision been used? The provision relates to impropriety in the use of funds.
- One of the functions of the Department of Finance should be to ensure financial strength (financial ability and accountancy) through the ranks and across Departments and public bodies. There seem to be gaps in this. What structures exist for support areas such as IT, HR and Finance?
- The corporate finance structure is responsible for the culture concerning money. There is a different view of expenditure and waste in the public and private sectors. The attitude to public money has to a large degree come from the political system. Culture is important, as well as rules – what is the attitude to rules? In order to change the culture there must be sanctions. Transparency is also important.
- Social Partnership – many bodies were not included in the process, e.g. small business and employees who were not members of unions. The State has serious failings as regards our social system and the partnership process does not address these.
- Showed the Panel template of balance scorecard. The scorecard facilitates the measurement of different elements such as GDP/GNP/Debt, wealth creation, infrastructure and social justice and quality of life.
- Performance Management: Stated that public service management is an enormous function and claimed that just 5 people in the Department are qualified to deal with this in the Department. PMDS doesn't work. Bonuses are a part of salary. The ability of line managers to manage people is questionable – do managers identify with their managerial role? Claimed that 81 of 82 advertised posts were filled internally. The management of key external relationships by the Department is important.

Session VI: Strategy for Economic Recovery - Multi Annual Framework
Robert Watt and Barry O'Brien

The main points were as follows:

- Overview of intentions of the 4 year plan: The plan is needed, most particularly to stabilise the markets. The aim of the plan is to reach a deficit level of 3% of GDP by 2014. In 2011 the deficit will be 11%+ of GDP. Significant adjustments must be made to reach our targets – these are likely to be front-loaded. The extent to which the details of the measures to be taken over the next 4 years will be made public is yet to be decided. Departments are being consulted on expenditure. Broadening of the tax base is being looked at, as well as measures to improve competitiveness. The aim is to have a fair, credible plan that will give hope.
- It was noted that the Department has had very strong control over expenditure in the past 2 years but that during the boom times this was difficult to maintain. The Department is reforming the way the Budget is produced, e.g. via the establishment of a Fiscal Council, Performance Budgeting etc.

Thursday, 14th October

Session I: Meeting with David Doyle, Former Secretary General

The main points were as follows:

- Advice was consistently provided on the overheating economy. It was clear during the period 2001-2006, when Mr. Doyle was Second Secretary General SPD, that fiscal policy decisions were considerably ahead of anything recommended by the Department. People voted on the basis of Programmes for Government which were promising higher spending and lower tax. There was also pressure from the Social Partners. Messages on economic policy must be delivered to the Cabinet by the Taoiseach or the Minister for Finance. Mr. Doyle himself attended just 2 Cabinet meetings throughout his career.
- The bursting of the dot-com in 2001 gave rise to a reassessment. Advice was provided by the SG (Mr. Doyle) to the Minister and the Taoiseach at this time and there was short term acceptance at political level of the fiscal and economic situation. Serious, robust conversations were held with the Minister in 2007 on emerging issues.
- The pace of economic activity was strong in 2001-2006 but the Department did not believe that this could continue. In 2005/6 the Minister was advised that the country was depending on unsustainable tax revenues that the economy had been dramatically over-heated and that problems would emerge which would be due to domestic policies and that a more sustainable fiscal position had to be maintained. A presentation to this effect was made to Secretaries General.
- There was a significant amount of activity between the Department and line Departments between submission of the BSM to Government and the finalisation of the Budget, as the Estimates Files will show. The Department did not agree with massive spending increases and made this clear to the Minister. Political events had an impact on policy.
- In 2000-2006 debt levels were in low double digits – related to specific approach of the Department.
- By 2007 the damage was done. While fiscal policy was one dimension, credit policy, which was highly inappropriate, had an even greater impact. Credit policy was in the remit of the Central Bank, which had the function of ensuring that financial market conditions were appropriate for sustainability. The Department fought to retain financial regulation within the remit of the Central Bank. The outcome was that the regulatory body was set up in the ambit of the Central Bank. The ECB's supervisory role with regard to the Central Bank was questioned.
- With regard to communication, Mr. Doyle noted that the introduction of the Pre-Budget Outlook was an attempt to may budgetary information more user friendly. However, negative changes in the economy outpaced these changes. Parliament needs to engage more with the Budget. The Department could have a more formal and thorough engagement in the Programmes for Government and Social

Partnership Agreements before they are adopted.

- With regard to the suggested pro-cyclicality of Budget 2008, it was asserted that there may have been a lack of engagement by the Government with the economic situation for a number of months which was due to political circumstances and priority issues for the Government such as the Lisbon Treaty Referendum and ongoing Social Partnership talks. The Taoiseach and Minister were advised of the need for a rational fiscal policy. Some external commentators were seeking fiscal stimulus and there was also political pressure in this direction. The cumulative impact of media and political comment during this period was to cause concern to consumers and investors.
- With regard to restructuring the Department, Mr. Doyle advised that a number of reviews of the Department had been carried out over the years. One of the key messages from these is that the development of people is crucial. There is a need for the accelerated development of the HR function. The Department needs more skilled and qualified people in diverse fields. Graduate recruitment needs to accelerate and these recruits should be involved in exchange programmes with organisations such as the Treasury, the Fed and other relevant bodies to glean experience and skills. This should be driven by the Department.
- With regard to the Public Service function of the Department, while this could possibly have been integrated more fully with the rest of the Department, decisions with regard to resource allocation are integrated. This is not so in the case of resource decisions for individual Departments, however, who may articulate the view that resource "battles" must be fought twice with D/Finance. However, Mr. Doyle does not advocate full integration of vote and administrative budget sections at the moment. Specialists are required for the HR management function to deal with pay and conditions, annual leave, EU directives etc. These areas cannot be separated from the pay bill. SPD and PSMD could be put under one Head of Division – areas could be integrated but not complete assimilation.
- Suggested that TPS could be dealt with by a stand alone office – Change Management Office – with a clear and separate identity.
- With regard to the management structure, it was noted that top management is imbalanced. Would not see reason for decreasing the number of Assistant Secretaries, given the range of activities in which the Department is involved. The Department does not manage sufficiently. There is not enough staff development or policy analysis and there is inadequate downward delegation. Reallocation of resources is needed.

Session II: Meeting with Cathy Herbert, Advisor to the Minister

The main points noted were as follows:

- With regard to staff, there are some very good AOs in the Department. Some staff at higher levels may push work upwards. A lot of hard work falls on a few shoulders.
- The structure of the Department is hierarchical. The Minister generally speaks to officials at Assistant Secretary level and upwards. The Minister does not see the experts brought into the Department very often. The Department may need to learn how to deal with experts taken in. Also, when the Department takes in experts, they should only be retained for a limited time.
- The ability of Department officials to write clear, simple briefing notes is not good. No priority is attached to this skill and its importance is underestimated. There is a need to effectively communicate the difficult decisions being taken. The Department has a tendency to see itself as outside of the political process (as opposed to party political). There has to be more awareness of the need for public buy-in for Government policies. The Department should try to inform the media agenda to a greater degree.

Session III: Meeting with Mr Dermot McCarthy, Secretary General Department of the Taoiseach

The key points were as follows:

- Government were advised of financial and economic vulnerabilities and a sense of concern was registered. However, the unprecedented global financial collapse was not envisaged.
- It was recognised that there were domestic vulnerabilities e.g. loss of competitiveness, overvalued property prices, increasing public expenditure which interacted with the global crisis.
- Important to understand that the Budget Strategy Memorandum is an articulation of the framework mid-year and is the beginning of the budgetary process. There are many interventions in advance of the budget and the Minister for Finance has a central role on an ongoing basis.
- Sustainability was a key issue and the risks were articulated and understood. The expectation was given the Irish economy's strong economic fundamentals, that those risks were manageable. The central scenario was, therefore, for a soft rather than a hard landing.
- Budget surpluses were recorded during this period and there was significant investment to provide key infrastructure such as roads, public transport, schools etc.
- What more could have been done? There were numerous positive views for the Irish economy from OECD, EU and ESRI. Growth in expenditure was clearly an issue. A medium-term budgetary framework would have been helpful. Recent developments at EU level will provide for the outlining of budgetary strategy at an earlier stage of the year – in April 2011 in respect of 2012. There will also be wider surveillance of all macroeconomic developments.
- Strengthening the Department going forward: Additional skills in economic analysis, accountancy and banking are necessary in what is essentially a knowledge organisation.
- **Public Service Reform:** Department has three distinct roles:
 - Cost Control/Numbers/IR
 - Goal setting, Accountability and animation of the Transformation agenda
 - Leadership of the Transformation Agenda.
- The distinct roles of the Department of Finance and the Department of the Taoiseach must be clearly understood.

- The Department of the Taoiseach role is to evaluate and account for performance which is essentially oversight. The levers for delivery of the change agenda are in the Department of Finance. This is a challenging role and requires different skill sets to those usually found in a Finance Department. There is a clear need to strengthen capacity and to restructure the management of the change agenda.
- Response to Crisis: The Department's response has been impressive and the design of the response has been good. However, it has identified shortcomings in the knowledge base, weaknesses in structure and the need for expert resources in a number of areas. The Department has been slow in increasing capacity to meet the requirements of a Finance Ministry now and for the future.

Session III: Meeting with Departmental Partnership Committee Meeting

(List of attendees to be supplied by Dermot Clynes)

The Panel members attended the start of the DPC meeting.

The main points were as follows:

- The Chairman outlined the Terms of Reference of the Review. Each Panel member gave an overview of their respective experiences with regard to the role of Finance Departments. They informed the meeting that the aim of the Review is to leave behind a template to improve and strengthen the Department, not to apportion blame.
- In response to questions from the DPC representatives, the Panel and Secretariat confirmed that:
 - The impact of Social Partnership and Programmes for Government on the fiscal situation is being looked at;
 - Ways to address people management and performance are being considered;
 - There will be further opportunity for staff to make their views known to the Panel via a consultation process following the model of that used for the Capacity Review;
 - Ways of making MAC more effective will be suggested.
- Other points noted by staff:
 - PMDS needs to be revamped.
 - There needs to be better matching of skill sets to jobs.

Session IV: Meeting with Michael Tutty, Energy Regulator and former Second Secretary General, BTED

The main points were as follows:

- Department forecasts were conservative – there was a realisation that growth could not be sustained at current levels. There was a small economic team in the Department, and it drew on the expertise of the Central Bank and the ESRI. The advice was always to run bigger surpluses.
- The Department was generally not in favour of tax reliefs – lowering tax rates was preferable. Costing of reliefs was difficult as the numbers that would avail of each relief was unknown. It was noted that property reliefs started out with the beneficial aim of regenerating urban areas, but they spread beyond their original purpose.
- There was not always written communication to the Minister regarding contentious issues; the Secretary General would have spoken to the Minister on such matters. Most disagreement was verbal. Significant issues were put in writing.
- Social partnership was initially a useful process, but became a means of distributing largesse as time went on.

Friday, 15th October

Session I: Meeting with Eoin Dorgan

The main points raised were:

- There is no Department Communications Strategy as such. Rather there is a piecemeal approach to communications, depending on the event.
- There is a question as to whether the Press Office is the Department or Minister Press Officer – can be a balancing act.
- There is an open door policy for the Press Officer – can speak to whichever official is best placed to deal with the issue at hand. The Press Officer also has complete access to the Minister.
- The Department is not good at communicating decisions taken, particularly with regard to banking policy and was behind the curve initially. The Department pays great heed to confidentiality and commercial sensitivities.
- A number of press briefings have been held on banking matters. Journalists are spoken to on an ongoing basis to ensure that they have background context to decision making. Mr. Dorgan noted that the general feedback from journalists is that the Department of Finance is one of the best Departments for communicating and making information available vis-à-vis other Departments.
- The Panel raised some concerns regarding the communication of the Department:
 - The Department is reactive rather than proactive;
 - There are no guidelines in place for staff as to how to deal with the media;
 - Question of coordination of Press Statements when different elements are produced by different sections in the Department;
- In response to a question from the Panel, Mr. Dorgan stated that it would be useful to let officials go on radio etc. to deal with some issues, but advised that there could be conflict with the Minister if views expressed were interpreted in a particular way.
- Mr. Dorgan undertook to speak to other Departments in Ireland and other Departments of Finance regarding their communications strategies and to speak to the Panel again during their next set of meetings.

- Fiscal Council: Yes, there is a need to design a system which is independent and well positioned to advise on fiscal policy.

Meeting with Mr. Mc Creevy:

Present: Mr. Wright, Mr. Malone, Mr. Mc Ardle, Ms. Keane

Key points were as follows:

- During 1997 – 2004 period advice provided by the Department of Finance was consistently sound, independent and well argued.
- Forecasting/technical advice was good.
- Strong and robust discussions took place on policy issues. Budget Strategy Memoranda, Pre-Budget documentation make this clear.
- Freedom of Information requirement, while desirable, should not extend to advice given to Ministers which should remain confidential.
- A radical rethink of employment conditions/recruitment to the Civil and Public Service is needed. (Permanency can be a disincentive to performance).
- Noted the difficulty involved in containing expenditure with the surge in resources. Budgets 2003 and 2004 maintained expenditure at appropriate levels.
- From 1998 onwards sustainability of property tax incentives were under review. Virtually all such incentives have now been removed.
- Responsibility of Public Service Management absorbed at least one-third of a Finance Minister's time. Since pay/allowances are a major component of expenditure financial control is vital.

Meeting with Mr. Tom Considine:

Present: Mr. Wright, Mr. Malone, Mr. Mc Ardle, Ms. Keane

Key issues raised were as follows:

- Important to understand the structure of Government.
- Interaction between the Programmes for Government, Social Partnership and Budgetary process are key elements in decision making.
- Implementation of Government Programme is a main component of Department's Strategy. Partnership Agreements complement the Programmes.

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- Requirement for a mechanism to be put in place to ensure that there is prioritisation.
- Advice given to Ministers and Government was clear and unequivocal. This is clear from the Budget Strategy Memoranda, Budgetary submissions etc. and can be confirmed from the files.
- Scope for increased transparency in forecasting and technical analysis.
- Public Service Management Division: Wide range of activity but control of pay/allowances is essential.

Meeting with Mr. Dermot McCarthy:

Present: Mr. Wright, Mr. Malone, Mr. Mc Ardle, Ms. Keane.

Main points were as follows:

- Departments of the Taoiseach and Finance occupy a privileged position at the centre of Government – unique capacity in a structural sense. Question is how that potential applied? How do the Departments see their role?
- Reflecting back – was there a lack of attention to financial vulnerability, impact of the internationalisation of financial markets? In the event the exposure was extreme. We were swayed by abundance of resources. Risks were certainly highlighted.
- Role of Department of Finance: Needs greater depth and breadth. Better connection across the system could lead to greater influence and credibility. Control function is dominant and necessary but thinking needs to extend to management of the system in a time of crisis.
- Social Partnership discussions are framed by the Programme for Government which is the major player. The Department of Finance has a central role. Further engagement is needed.
- Fiscal stabilisation/regulation should not be divorced from development. For economic recovery the following is needed.
 - A coherent set of economic policies
 - Engagement other than expenditure control with sectoral issues
 - Allocation decisions linked to development. What will give the best return on available resources? – this goes beyond rationalisation of what the market will bear.

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- Much sharper analysis and evaluation is required. Has the system lost a degree of rigour due to resource availability? Is recent Capital Review argument based on prose rather than metrics – “Hard nosed” analytical skills have been lost?
- Government needs to have a view of the future
 - How is recovery to be grounded?
 - How can appropriate policies be shaped and put in place?

This requires a whole system effort.

- Fiscal Frameworks: There is scope for a mechanism that provides assurance that parameters are properly set. New EU Governance arrangements may create possibilities.
- Government were advised on financial and economic risks and need for corrective action – vulnerabilities were not fully understood.
- Partnership is “not ended” – incomes policy must be managed by Government, Partnership provides the scope for shared endeavour in doing this.

14 September 2010

Review of Department of Finance: Meetings on Monday, 13 September 2010

Meeting with former Secretary General, Mr. David Doyle.

Attendance: Mr. Wright, Mr. Malone, Mr. Mc Ardle, Ms. Keane.

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Key points were as follows:

- Important to judge fiscal policy over a 10 year period in the context of the time, assumptions made, extant forecast of Central Bank, ESRI, EU Commission etc.
- Forecasts over period 2000 – 2008 reasonably good.
- Combination of low interest rates, increases in income due to pay/tax reductions drove consumer spending.
- Policy of significant income tax reduction. During the period 2000 to 2008 the entry point to income tax increases from €7,238 to €18,300 and minimum wage became one of the highest in Europe.
- What was the Department's view: Recommended very substantially less as will be seen in the Budget Strategy Memoranda.
- Implications of Pre-Election commitments, Programmes for Government and Social Partnership.
 - Role of Department to advise
 - While fiscal sustainability was an objective the commitment to lower taxes, better public services etc. drove spending.
- Noted the Finance Minister was not involved in negotiating the last two Programmes for Government
 - No external or internal assessment of impact.
 - Structural fault line.
- Department of Finance participated in each Sectoral area in Partnership negotiations. Agreements became a "to do list" with the surge in revenue.
- Important to check on the detail of what actually happened – paper trail
- Note the findings of Long - Term Issues Group Reports during this period.
- Department's Position: Supported Corporation Tax reduction

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Against Tax reduction on the scale provided.

See Tax Strategy Group Papers

- Important for Panel to look at Budget Strategy Memoranda and Tax Strategy Group Reports. Assess the assumptions made and the difference between recommendations made and the measures implemented in each Budget.
- Look at Post-Budget assessments by Central Bank, ESRI, EU Commission, IMF.
- Growth in Construction Sector: 2006-2007. Look at advice given on risks.
- 2007 Budget stance on tax/expenditure dramatically ahead of recommendations
- Note in particular 2002 Budget and Budgets 2003 and 2004: changed economic circumstances
- Ongoing advice concerning the risks to competitiveness.
- Implications of Elections/Referendum.
- 2008 – saw loss of confidence in economic fundamentals from external investors and significant withdrawal of funds.
- October 2008 Budget saw a strong political focus on fiscal measures needed in the national interest.
- NTMA, NAMA – new interface to be put in place.
- Secretaries General briefed on key economic risks and emerging fiscal problems. (Annual Conferences)

Meeting with Professor Philip Lane

Attendance: Mr. Wright, Mr. Mc Ardle, Ms Keane.

Key points were as follows:

- Academic Economists have virtually zero interaction with the Department of Finance. There are no mechanisms in place to facilitate such engagement.
- When Ireland joined the Euro zone there was a need for significant change with increased importance of fiscal policy.
- Forum needed to facilitate engagement and to share views.

Review of Department: Panel Meetings of 11-15 October, 2010

Monday, 11th October

Session I: Organisation of the Department – Present position and way forward, Derek Moran
Attended by: Ciarán Connolly (SG PSMD), Brendan Duffy, Michael Errity and Tim Duggan

Mr. Moran outlined his personal views on the organisation of the Department, with reference to the Mullarkey Report in the mid-1990s, the attitudinal survey carried out in 2002 and the Capacity Review published in 2008.

The main points made were as follows:

GET PRESENTATION

- Mr. Moran and Mr. Connolly confirmed that, while there may be an awareness of poor management in the Department, there is no on-going individual monitoring of staff management skills and that there is only discussion on such skills when a related problem arises. It was also noted that, as the Department is task driven, there is a tendency to give work to those who will deliver on the task.
- In response, Mr. Wright noted that the importance of monitoring people management skills, stating that, if you measure it, it matters.
- Mr. Moran also noted that the Secretary General should have a corporate role, but that sometimes it can be difficult to detach from policy work. There should be some rethinking on the role of Heads of Division. This had been looked at in the Capacity Review and the view was taken that the number of Heads of Division level should be examined. However, when a vacancy arose in FSD on the promotion of the current Secretary General, the decision was taken to fill the post, reflecting the span of responsibilities of the Department.
- Mr. Moran raised a number of issues with regard to the numbers of Assistant Secretaries:
 - If there are a large number of Assistant Secretaries in a small Department, there is less need to delegate work downwards, which can lead to A/Secs taking on less of a role in HR issues and capacity building in the Division. Lack of delegation can also lead to decision making being pushed up the line.
 - The number of Assistant Secretaries necessitates rotation of attendance at MAC meetings.
- It was noted that there are a number of groups at Assistant Secretary level in the Department to deal with cross-cutting issues, e.g. the Budget Coordination Group and Social Partnership Group.
- Mr. Moran advised that the Executive Office, which currently provides a support function to the Secretary General should be strengthened in order to give increased authority to the strategic planning process. Mr. Malone suggested that an alternative to this course could be the appointment of a good Head of Corporate

Affairs who would act as a link between the Secretary General and Management, the Minister's Office and the Press Office.

- With regard to the "cell based structure" in the Department, it was noted that, while this structure can be very effective in achieving results, it mitigates against a fluid team-based structure. The open plan layout of some buildings facilitates greater interaction between staff; however such a layout would not be possible in the Merrion St. building.
- Mr. Moran proposed that a unit including economist, statistician and other required skills should be established to deal with horizontal issues. He stated that there is not need for professional streams; these would create IR problems and there would be no career path for them to follow.
- Mr. Connolly noted that there is greater flexibility now to bring in specialists to meet particular requirements – this was possible before the Croke Park deal was agreed. He advised that a quarter of Department vacancies are filled from outside and noted that all competitions from PO level upwards are open. Competitions for IT related posts are advertised across Departments. There have been a number of open TLAC competitions but these have had a low number of applicants from outside.
- Mr. Connolly described recruitment process in the Civil Service and undertook to provide a note to the Panel on the matter.
- There was a discussion on the options available to regularise those people taken in to the Department through secondment.
- In response to a question from the Panel, Mr. Connolly advised that there are no impediments to recruiting economists, if this is required. However, current budget constraints may make this difficult. In this context, the Panel requested a paper on the Department budget.
- Mr. Connolly advised the Panel that, while the Cabinet Sub-Committee on TPS is shared by the Taoiseach most of the statutory functions of the TPS agenda lie with the Department of Finance and that the Department had increased its role in a range of TPS related areas over the past few years. He also provided the background information on the stages of reform in the public sector, from the establishment of the Department of Public Service to the Croke Park. He noted that overall the public sector is quite efficient and that the size of the sector is appropriate to the size of the economy – this was borne out in the OECD Report on the Irish Public Sector. It was noted that the Department of Finance agreed with many of the recommendations made in this Report.
- Mr. Connolly outlined a number of initiatives currently underway under the TPS process, including establishment of a Senior Public Service and shared services projects.
- With regard to the Croke Park Agreement, Mr. Connolly stated that, while IR issues generally and the Croke Park Agreement specifically pervades much of

what the PSMD does, the reform measures agreed to in it are more relevant to areas such as Agriculture, Health etc., that policy Departments like Finance. One of the main benefits that Croke Park will bring is flexibility. Underperformance will also be dealt with under Croke Park – this was put on the agenda by the Civil Service management. Mr. Duggan noted that the Croke Park Agreement will have a major impact on work practices. He advised that in order for Departments to get sanction for ICT expenditure, it must be linked to their Business Plans.

- Mr. Connolly advised that an Implementation Group has been set up to ensure implementation of the Croke Park recommendations. Action Plans are being received from Departments and D/Finance will ensure that these are robust.
- In response to a question from the Chairman on how the Partnership Process functions, Mr. Connolly advised that the Department of the Taoiseach is the main broker while D/Finance leads the Public Service team in negotiations. On broader issues, relevant staff from D/Finance and line Departments attend meetings. An Assistant Secretary level Group in D/Finance, which comprises membership from SPD and BTED and is chaired by PSMD feeds into the process. Partnership/pay talks do not feature in the BSM, but are dealt with via separate Memos to Government.
- Mr. Connolly noted that looking at international pay comparisons is often not useful as there is a wide variety of variables such as tax and social welfare systems which are not taken into consideration in such measures. However, the Review Body on Higher Remuneration, which considered senior pay levels did look at international comparisons and found that pay at Assistant Secretary level was in line with these and with private sector levels.

Session II: Meeting with Donal McNally, Second Secretary, Sectoral Policy Division

Political Context

- Mr. McNally gave a brief outline of the political context to the past number of years. He noted that when the new Government came to power in 1997, the public finances were in good shape. Minister McCreevy introduced a 4% rule for expenditure. The NPRF was established in 2000/2001.
- During the period of very strong growth and increasing tax revenues, the Department felt that bigger surpluses should have been run – Cyclically Adjusted Budget Balance (CABB) figures showed that Ireland should have – however this may not have been politically feasible.
- Mr McArdle noted that the EU stated in 2001 that Ireland should run additional surpluses of ½% but that commentators did not agree with this.

BSM Preparation Process

- Mr. McNally provided an overview of the BSM preparation process, explaining that work on the Memo begins in May when parameters are decided upon. Drafts are prepared in consultation with the Minister.
- A letter is sent to Departments regarding the Estimates. In Mr. McNally's experience as former Second Secretary General on the Tax side, the Minister met with Mr. McNally and a range of officials regarding tax measures.
- Concern would have been expressed by officials to the Minister about structural issues, overheating and competitiveness. However, there was increasing public expectation for greater spending. The Partnership process and Programmes for Government were also sources of pressure.
- It was noted that the fact that a significant proportion of tax receipts are received in November can impact on decision making at a late stage in the process. Mr. Wright noted that it appeared that decision making was based on fiscal policy in June/July when BSM went to Government, but that in advance of the Budget policy was based on arithmetic.
- When asked, Mr. McNally confirmed that the BSM process did become somewhat of a ritual over the years.

Property reliefs

- With regard to getting rid of property reliefs, Mr. McNally advised that the main focus was on disincentivising the buying of second properties. The aim was to phase out reliefs over a 3 year period to try to encourage a soft landing.
- In response to a question about "commentator fatigue", Mr. McNally noted that there was a level of repetitiveness in views of bodies such as the OECD which recommended the abolition of Mortgage Interest Relief for a number of years irrespective of economic situation.

Role of Department of the Taoiseach in the Budget process

- In response to a question on the role of the Taoiseach on the Budgetary Process, Mr. McNally noted that prior to 1994 all expenditure related Memorandums to Government had to be signed off by the Department of Finance prior to submission to Cabinet. He also advised that Departments had numerous

opportunities to try to increase their budgets, via the Abridged Estimates (AEV), the Budget, the Revised Estimates (REV) and expenditure Memos.

- He advised that the involvement of the Department of the Taoiseach depends to a large extent on the Minister and the Taoiseach. Social Partnership also gave the D/Taoiseach an increased role in the budgetary process.

Expenditure Challenges

Mr. McNally identified the following challenges:

- Effective spending control
- Achieving Value for Money (VFM)
- Good quality Cost Benefit Analysis (CBA)
- Rational spending decisions
- Process: Department of Finance control. Publication of BSM and other advice provided.
- Structures: availability of good financial analysis and capital appraisal

Session III: Meeting with Ann Nolan, Second Secretary and William Beausang, Assistant Secretary, Financial Services Division

The main points made were as follows:

- FSD has been going through a period of ongoing change over the past two years. It is important to establish building blocks for the future now, in particular structures to improve monitoring of the financial system.
- The relationship between the Department and the NTMA must be formalised: the 2007 Memo of Understanding was to intended to facilitate information exchange without interfering in the work of the Financial Regulator. An appropriate system of interaction must be put in place between the relevant agencies that will ensure ongoing contacts when there is no crisis.
- There is a disconnection between fiscal policy (in remit of Department) and monetary policy (seen as being in the remit of the Central Bank).
- With regard to the growth in credit and property prices, it was noted that no-one, including economists, saw these issues as the problems that they were to become. It was noted that the Financial Regulator, in a meeting held with the Department and the Department of the Environment, did not express concern at the lending policies of the financial institutions. The Department may have been too "hands off" with its approach to matter.
- With regard to collaboration with the NTMA, the delegation order states that the NTMA must work in consultation with the Department – this may need to be put on a formal footing, e.g. through a Memo of Understanding. Political accountability remains with the Department of Finance; the Minister will generally contact the NTMA via Department officials. However, the Minister can seek advice from the NTMA and the Department. Work could be outsourced to the NTMA in the long term, but checks and reporting arrangements need to be put in place in advance of this.
- With regard to FSD staffing, it was stated that staffing levels could not be decreased in the short term and certainly could not return to the levels they were at pre-2008. An overview of staff numbers and work in which FSD is engaged was provided. It was noted that, while there may be an overlap in functions between FSD and the agencies, there is no overlap in work. It was noted that specialists have been taken on in the Division. The view was expressed that experts should be employed in the Department on short term – 3 year – contracts only and then replaced in order that the Department has a constant linkage with private sector developments and market related skills are maintained.
- Ms Nolan undertook to provide a draft outline of a framework for ongoing communication with the Financial Regulator for submission to the Panel.
- A list of outside expertise engaged by the Department and the processes by which they were engaged in will be provided to the Panel.

Session II: Meeting with Ciarán Connolly, Secretary General, PSMD, Michael Errity, Assistant Secretary, PSMD and Brendan Duffy, Assistant Secretary, PSMD

**Attended by: Rob Wright, John Malone, Pat McArdle
Carmel Keane, Paul Byrne, Aoife O'Sullivan**

The main points were as follows:

- With regard to implementation of the Croke Park agreement, it was noted that much of this would be achieved through changes to work practices in local offices. While this cannot be managed by the Department of Finance, the Department can ensure that these offices have the capacity to implement reform. In this context, the Department has been running courses on Business Process Re-engineering. Mr. Connolly also noted that further expertise was needed in this area.
- It was noted that the level of compliance with, and effectiveness of, performance management was not adequate. The 2009 Review of Performance Management has just been completed with indicates that compliance is low. Willingness of managers to award low ratings is also low. Managers feel that they will not be backed up if they address underperformance and fear that they may be accused of bullying, which has happened in the past. Managers will need to be trained to deal effectively with under-performance.
- The aims for the public service are:
 - To make it smaller, simpler, more efficient and productive
 - Greater flexibility – outsourcing where appropriate
 - Greater integration – shared services
 - More user-friendly – Report to be published shortly on e-Government
 - More effective for the consumer
 - Achieve cost reductions
- At this stage, there is no checklist of issues to be achieved under the Croke Park Agreement. Action Plans are being prepared. Some Plans are more specific than others. The Croke Park Agreement is more of an enabler for change rather than a list of measures to be implemented. Key Croke Park measures were identified as: Redeployment; strengthened performance systems; increased use of e-Government; possibility of outsourcing.
- Actions can be taken to increase management capacity to implement reform. It was noted that the Senior Public Service (SPS) has been formally approved by Government and launched. D/Taoiseach has the lead role; D/Finance has a role on the developmental side.
- A number of areas where public service modernisation was already taking place were emphasised.
- The Department of Finance has strategic responsibility for Public Service Reform. The Department of the Taoiseach has a role in this area, often in giving reform initiatives an initial boost.

- Suggestions of issues that could be identified in the Panel Report include the following
 - Recognition of the critical nature of the PSMD role vis-à-vis other areas of the Department;
 - Strengths and deficiencies – Strong as regards IT; further capacity needed with regard to HR professionalism, PS reform, business process re-engineering;
 - Capacity of public service management to deliver change.
- With regard to the appointment of specialists, it was noted that in areas such as business process reengineering, the vision is for the Department to become a centre of excellence and perform a consultancy role for smaller Departments and offices with regard to best practice. A network could be established to exchange ideas. Larger Department sand Offices tend to have their own internal expertise.
- The Department will also have a role in asking hard questions of other Departments and offices as a result of its responsibilities with regard to pay and budget allocation.
- Department has very few levers it can use to ensure compliance with Croke Park agreement, other than budget allocation. However, it was noted that results of Civil Service wide surveys on the implementation of PMDS will be published in the future.
- It would be useful to have greater consolidation of returns from Departments – at present a large volume of information relating to staffing, numbers, PMDS and other issues is required, which is very time consuming for Departments.
- Change could be measured both by reductions in cost and in improvements in service in terms of efficiency, quality and reliability.
- A note will be provided to the Panel by Thursday, 11th November, on the overall “story” of public sector reform, progress, Croke Park agreement and how the agreement will be implemented.

Tuesday, 9th November

Session I: Meeting with Governor of the Central Bank
Venue: Central Bank

Attended by: Rob Wright, John Malone, Hans Borstlap, Pat McArdle
Carmel Keane

The key points were as follows:

- Enhancing technical capacity in the Department/Central Bank is critical
- Necessary to dissolve demarcation lines to ensure that there is a coherent macro-economic overview, while maintained the critical specialist skills required to develop policy. Important that analysis connects with policy formulation.
- The Department should have greater autonomy on technical matters independent of the political process.
- Supportive of Fiscal Council arrangements which are independent, competent and validating.
- Advice needs to be communicated more effectively e.g. more rigorous analysis and written advice. (Scope to further develop the pre-Budget letter from the Central Bank).
- Ireland has the 15th largest financial sector in the world – Are we resourced to deal with this?
- Imperative that there are formal arrangements with the Central Bank, including the Financial Regulator, to ensure that the Department and the Minister are fully informed on potential macro-economic risks.
- Very supportive of secondment of skilled economists on a two-year rotation with the Central Bank.

Session II: Meeting with Brendan Duffy, A/Sec and Oonagh Buckley, PO (& Secretary to the Croke Park Implementation Body), PSMD

**Attended by: Rob Wright, John Malone, Hans Borstlap, Pat McArdle
Carmel Keane, Paul Byrne, Aoife O'Sullivan**

A paper on the Department's role as regards implementation of the Croke Park Agreement was circulated.

The main additional points made during the meeting were:

- The Croke Park deal is for the public sector only. It offers pay stability in return for changes to work practices. It is an opportunity to progress change in an atmosphere of industrial peace, which is extremely important. The political system attaches great importance to industrial peace and delivery of services.
- The Unions are cooperating with regard to public sector reform. The problem is achieving management buy-in.
- Public service numbers have dropped significantly in the past couple of years, by approximately 11,000 (5%).
- The Department of Finance has a central role in driving inter-Departmental change and will have to act as guardian of the Croke Park agreement. The reporting structure of the Implementation Body is being formulated. The immediate aim will be to get management into the space to deal with Croke Park. In the medium to long-term how to deal with public sector pay and numbers will have to be examined.
- With regard to communicating what is being achieved under Croke Park, a website will be set up to publicise change.
- PSMD needs to cooperate with SPD to ensure consistency with regard to Croke Park.